



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 16, 2005

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Auditor of State David A. Vaudt today released an audit report on the City of Grimes, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$6,048,725 for the year ended June 30, 2004, a 10 percent increase from 2003. The receipts included \$2,110,115 in property tax, \$778,617 from tax increment financing, \$2,417,792 from charges for service, \$543,769 from operating grants, contributions and restricted interest, \$48,011 from capital grants, contributions and restricted interest, \$50,555 from unrestricted interest on investments, \$87,292 from bond proceeds and \$12,574 from other general receipts.

Disbursements for the year totaled \$7,294,790, a less than 1 percent increase from the prior year, and included \$2,406,198 for capital projects, \$900,224 for debt service and \$680,222 for public works. Also, disbursements for business type activities totaled \$1,802,700.

The significant increase in receipts is due primarily to increased tax increment financing collections and business type activities charges for service.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF GRIMES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Grimes

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Tom Armstrong	Mayor	Jan 2006
Steve Fairbanks	Mayor Pro tem	Jan 2004
Ron Rosenberg	Council Member	Jan 2004
Michael Grove	Council Member	Jan 2006
Ron Long	Council Member	Jan 2006
Mike Martin	Council Member	Jan 2006
(After January 2004)		
Tom Armstrong	Mayor	Jan 2006
Michael Grove	Mayor Pro Tem	Jan 2006
Ron Long	Council Member	Jan 2006
Mike Martin	Council Member	Jan 2006
Tami Evans	Council Member	Jan 2008
Tom Shatava	Council Member	Jan 2008
Kelley Brown	Administrator	Indefinite
Susan Lemon	Clerk	Indefinite
Barbara Alexander	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

City of Grimes



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Grimes' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

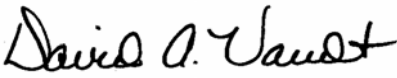
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


As described in Note 12, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2004 on our consideration of the City of Grimes' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grimes provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11%, or approximately \$395,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$147,000. In 2003, a \$2.65 million bond issue was passed and three bonds were refinanced resulting in a refunding bond of \$1.955 million. In 2004, \$.087 million of water revenue bonds were issued resulting in additional debt to the City.
- Governmental activities disbursements decreased .7%, or \$41,435, in fiscal 2004 from fiscal 2003. Public works and capital projects disbursements decreased approximately \$193,079 and \$195,073, respectively. Public safety and debt service increased \$105,774 and \$214,032, respectively.
- The City's total cash basis net assets decreased 23.1%, or \$1,246,065, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased \$993,257 and the assets of the business type activities decreased by \$252,808. The higher balances in 2003 were due to the 2003 bond issue proceeds that were then used for capital projects in 2004. The Council has also been prudent in their budgeting and has heeded previous cautions by auditors to use fund balances versus tax proceeds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

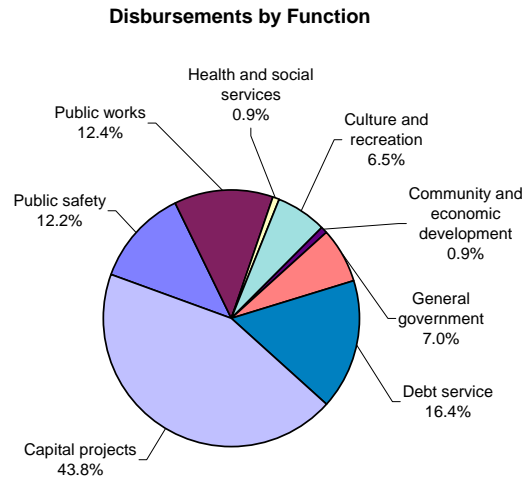
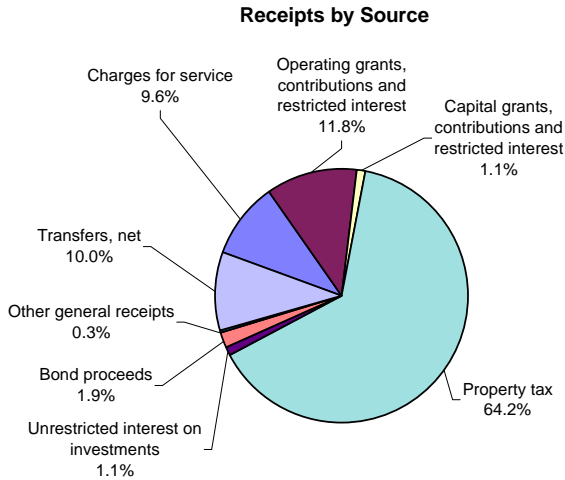
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City and the solid waste fund.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago from \$4.325 million to \$3.332 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>	
	<u>Year ended June 30, 2004</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 431,525
Operating grants, contributions and restricted interest	530,187
Capital grants, contributions and restricted interest	48,011
General receipts:	
Property tax	2,888,732
Unrestricted interest on investments	50,512
Bond proceeds	87,292
Other general receipts	12,574
Transfers, net	450,000
Total receipts and transfers	<u>4,498,833</u>
Disbursements:	
Public safety	671,961
Public works	680,222
Health and social services	48,000
Culture and recreation	354,637
Community and economic development	47,633
General government	383,215
Debt service	900,224
Capital projects	2,406,198
Total disbursements	<u>5,492,090</u>
Decrease in cash basis net assets	(993,257)
Cash basis net assets beginning of year, as restated	<u>4,325,143</u>
Cash basis net assets end of year	<u><u>\$ 3,331,886</u></u>



The City's total receipts for governmental activities increased by 11%, or \$395,377. The total cost of all programs and services decreased by approximately \$41,435, or .7%, with no new programs added or cut this year. The significant increase in receipts was primarily the result of the increase in valuation from \$244,876,121 to \$262,035,158. Valuation increased 7.0%, or \$17,159,037.

The City increased property tax rates for 2004 by an average of 1.6 %. Although this was an increase in the tax rate, the rollback decreased from 51.39% to 48.46%. The net result of the tax rate increase and the decrease in the rollback resulted in an actual net decrease in property taxes to the property owner. The effect on a property valued at \$150,000 was a decrease in taxes of \$42.12. The residential rollback for fiscal year 2006 is projected to further decrease to 47.9642%. The resulting impact of this decrease will be a need to increase the property tax rate by approximately \$.14 to offset the rollback for fiscal year 2006.

The cost of all governmental activities this year was \$5.492 million compared to \$5.534 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$4.482 million because some of the cost was paid by those directly benefited from the programs, totaling \$431,525, or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest, totaling \$578,198. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 principally due to increased building permits, inspection fees, plat reviews, an expanded summer recreation program, increased school crossing guard costs and an increase in road use tax funds. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,888,732 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 1,066,047
Sewer	777,821
Solid waste	142,399
Operating capital grants, contributions and restricted interest	13,582
General receipts:	
Unrestricted interest on investments	43
Total receipts	<u>1,999,892</u>
Disbursements and transfers:	
Water	926,237
Sewer	710,022
Solid waste	166,441
Transfers	450,000
Total disbursements and transfers	<u>2,252,700</u>
Decrease in cash balance	(252,808)
Cash basis net assets beginning of year, as restated	<u>1,078,347</u>
Cash basis net assets end of year	<u><u>\$ 825,539</u></u>

Total business type activities receipts for the fiscal year were \$2.0 million compared to \$1.918 million last year. This increase was due primarily to an increase of water, sewer and solid waste users as a result of the continuous growth in the City of Grimes. The cash balance decreased by \$252,808 from the prior year because most of transfers made to the water and sewer funds were to pay ongoing capital costs. Total disbursements and net transfers for the fiscal year increased by 28.5% to a total of \$2.253 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$3,331,886, a decrease of \$993,257 below last year's total of \$4,325,143. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$42,106 from the prior year to \$885,772. This increase was due to the increase in total valuation resulting in an increase in property tax received. The City continues to monitor taxes and ending fund balances to determine the balance between having money in reserves for unforeseen emergencies versus keeping taxes at a consistent level.
- The Road Use Tax Fund cash balance decreased by \$323,261 to \$414,391 during the fiscal year. The beginning balance of \$737,652 had been held in anticipation of the Highway 44 Lane Expansion project and the Signal and Lane Expansion Project at Highway 141 and 62nd/19th Street. \$515,000 was transferred from this fund to these capital projects. The City is committed to the continued use of the Road Use Tax Fund for major construction projects versus operations of the street department.

- The Tax Increment Financing Fund (TIF) was established years ago to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. The premise of the use of TIF can be illustrated in this example. The City of Grimes designated the area east of Little Beaver to Highway 141 and south to Urbandale as an Urban Renewal Area. The City passed bonds and used TIF financing to pay for the sewer, water, road improvements and the signals at 54th and Highway 141. As a result of that investment, this area has been converted from fields into businesses. The increase in tax revenue obtained from the growth in this Urban Renewal Area is then first used to pay off the debt incurred to extend the utilities to this area. After the debt has been paid, the City, County and School District gain the benefit of the increased tax revenue. The resulting benefit to the citizens of Grimes and the DC-G School District is an increase in the valuation of the City, thus the increase of tax revenue needed to provide services. Note, also, that traditionally the City Council has only used TIF financing to promote commercial or industrial development. These uses are taxed at 98% - 100% of their valuation versus residential valuation which is taxed at 47.946% projected for fiscal year 2006. The City is currently certifying TIF debt for the payment of the utilities extended in the example above, transportation trail system planned improvements, signals at Highway 141 and NW 62nd/S 19th, the fire station addition, sports complex and the paving of James Street. The area east of Highway 141 and south of South 11th was amended into the Urban Renewal Area so TIF financing could be used for the Signals at Highway 141 and NW 62nd/S 19th and for the S 11th project. As infrastructure needs continue in this area, TIF is an important economic tool to assist development. At the end of the fiscal year, the cash balance was \$(9,326), a decrease of \$12,078 from the previous year. The City of Grimes only certifies enough TIF revenue to pay off the bond payment each year. If the resulting taxes generated from the increment are more than needed to make the bond payments each year, the City, County and School District get the benefit of that tax revenue.
- The Debt Service Fund cash balance increased by \$258,243 to \$294,258 during the fiscal year. This increase was due to a payment of \$250,000 that was originally anticipated to be paid in fiscal year 2004 that will be paid in fiscal year 2005. Bond principal and interest payments increased by \$214,031 in fiscal 2004 because of the \$2.65 million bond issue passed in 2003.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$46,565 to \$478,730, due primarily to an increase in the sale of water that allowed \$200,000 to be transferred to Capital Projects Fund.
- The Sewer Fund cash balance decreased by \$182,201 to \$375,686, due primarily to an increase in sales that allowed \$250,000 to be transferred to the Capital Projects Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 25, 2004. The City traditionally amends the budget in May of the current fiscal year because the exact timing and payment of capital improvement projects is seldom known at the time the original City budget is certified in March of the previous year. This amendment was needed as a result of the timing of the Sports Complex Phase 5 and 6, the Highway 44 Project, the South 11th Street Project and the Capitol City Sewer project. \$5.55 million was amended into the budget for capital improvements. In addition, \$51,526 was amended into Public Safety for increased costs with the Fire Department and Mosquito Control. \$21,566 was amended into Public Works which contributed to the purchase of the new loader. \$25,000 was amended into the Community and Economic Development for the promotion of economic development. \$18,274 was amended into General Government for the increase in legal fees, increased costs due to the attendance at the DM Partnership Trip and increase in office expense. All additional costs were absorbed by planned existing balances. For increased revenue, \$200,882 was amended into charges for services as a result of the increased fees for building permits, inspections, site plan and plat reviews resulting from the increase in growth and development.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$16.693 million in bonds and other long-term debt, compared to approximately \$17.916 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2004
General obligation bonds	\$ 6,705
Revenue bonds	10,139
Lease -purchase agreements	119
Total	\$ 16,963

Debt decreased as a result of payments made during this fiscal year. In addition, the City continues to certify TIF debt to lower the amount of debt service taxes needed to pay the bond payments each year.

The City continues to carry a general obligation bond rating of A3 assigned by Moody's Investor Service to the City's debt in 2003. Prior to this time, the City had not been rated. This rating was based on the city's growing tax base, stable financial position and above average but manageable amount of rapidly retiring debt. The City's outstanding general obligation debt of \$6.824 million is significantly below its constitutional debt limit of \$12.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Grimes' elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for various City activities. One of the factors the Council will have to consider is a potential increase in garbage rates. In the past, tax revenue has been used to subsidize this Enterprise Fund.

The City's valuation continues to increase. For fiscal year 2005, the valuation has grown from \$262,035,158 to \$300,340,942. This is an increase of \$38,305,784, or 14.6 percent. Single-family building permits have increased to 79 from 48 in 2003. Permits issued in 2004 are expected to remain at this level. The City conducted a special census in September of 2004 and has an increase in population of 764 people. This is a growth rate of 15% since 2000. The results of this increase will cause an increase in the Road Use Tax Funds of over \$400,000 which will be invested in the transportation system.

In addition, the economy is a factor. This is from the U.S. Census Bureau from the 2000 Census.

Characteristics -	Number	Percent	U.S.
In labor force (population 16 years and over)	3,006	83.8	63.9%
Mean travel time to work in minutes (population 16 years and over)	20.0	(X)	25.5
Median household income (dollars)	56,275	(X)	41,994
Median family income (dollars)	60,847	(X)	50,046
Per capita income (dollars)	23,712	(X)	21,587
Families below poverty level	35	2.4	9.2%
Individuals below poverty level	166	3.3	12.4%

Housing Characteristics -	Number	Percent	U.S.
Single-family owner-occupied homes	1,119	100.0	
Median value (dollars)	119,500	(X)	119,600
Median of selected monthly owner costs			
With a mortgage	1,123	(X)	1,088
Not mortgaged	348	(X)	295

(X) Not applicable.

Source: U.S. Census Bureau, Summary File 1 (SF 1) and Summary File 3 (SF 3)

The City of Grimes currently has 674 residential lots platted and is in the process of petitioning for the annexation of over 1,200 acres of land. All of these factors are indicative of strong economic growth.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$8.172 million, an increase of 35% over the final 2004 budget. Property tax (benefiting from the increases in assessed valuations), proceeds from the 2003 bond issue, Rise grants, agreements with developers for reimbursement and increases in Road Use Tax are expected to lead this increase. The City will use these receipts to finance programs we currently offer, complete the capital improvements projects in process, initiate new capital improvement projects and plan for future projects. Budgeted disbursements are expected to rise by approximately 13%. Most of the increase can be accounted for in the expenditures of the current and planned capital improvement projects. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$29,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelley Brown, City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at kelbrown@ci.grimes.ia.us.

Basic Financial Statements

City of Grimes

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 671,961	369,629	6,738	-
Public works	680,222	-	424,600	-
Health and social services	48,000	-	39,000	-
Culture and recreation	354,637	23,790	46,281	-
Community and economic development	47,633	-	-	-
General government	383,215	4,906	13,551	-
Debt service	900,224	-	17	-
Capital projects	2,406,198	33,200	-	48,011
Total governmental activities	5,492,090	431,525	530,187	48,011
Business type activities:				
Water	926,237	1,066,047	13,582	-
Sewer	710,022	777,821	-	-
Solid waste	166,441	142,399	-	-
Total business type activities	1,802,700	1,986,267	13,582	-
Total	\$ 7,294,790	2,417,792	543,769	48,011
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Water revenue bond proceeds				
Other general receipts				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(295,594)	-	(295,594)
(255,622)	-	(255,622)
(9,000)	-	(9,000)
(284,566)	-	(284,566)
(47,633)	-	(47,633)
(364,758)	-	(364,758)
(900,207)	-	(900,207)
(2,324,987)	-	(2,324,987)
(4,482,367)	-	(4,482,367)
-	153,392	153,392
-	67,799	67,799
-	(24,042)	(24,042)
-	197,149	197,149
(4,482,367)	197,149	(4,285,218)
1,454,517	-	1,454,517
778,617	-	778,617
655,598	-	655,598
50,512	43	50,555
87,292	-	87,292
12,574	-	12,574
450,000	(450,000)	-
3,489,110	(449,957)	3,039,153
(993,257)	(252,808)	(1,246,065)
4,325,143	1,078,347	5,403,490
\$ 3,331,886	825,539	4,157,425
\$ 414,391	-	414,391
294,258	68,988	363,246
1,746,791	-	1,746,791
876,446	756,551	1,632,997
\$ 3,331,886	825,539	4,157,425

City of Grimes

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			Debt Service
	General	Road Use Tax	Tax Increment Financing	
Receipts:				
Property tax	\$ 1,366,738	-	-	655,598
Tax increment financing	-	-	778,617	-
Other city tax	17,606	-	-	-
Licenses and permits	199,711	-	-	-
Use of money and property	52,116	-	-	17
Intergovernmental	50,299	424,600	-	-
Charges for service	182,481	-	-	-
Miscellaneous	24,485	-	-	-
Total receipts	1,893,436	424,600	778,617	655,615
Disbursements:				
Operating:				
Public safety	654,080	-	-	-
Public works	498,498	181,724	-	-
Health and social services	9,000	-	-	-
Culture and recreation	353,194	-	-	-
Community and economic development	37,527	-	-	-
General government	383,215	-	-	-
Debt service	-	16,137	-	884,087
Capital projects	-	-	-	-
Total disbursements	1,935,514	197,861	-	884,087
Excess (deficiency) of receipts over (under) disbursements	(42,078)	226,739	778,617	(228,472)
Other financing sources (uses):				
Water revenue bond proceeds	-	-	-	-
Operating transfers in	112,055	-	-	486,715
Operating transfers out	(27,871)	(550,000)	(790,695)	-
Total other financing sources (uses)	84,184	(550,000)	(790,695)	486,715
Net change in cash balances	42,106	(323,261)	(12,078)	258,243
Cash balances beginning of year, as restated	843,666	737,652	2,752	36,015
Cash balances end of year	\$ 885,772	414,391	(9,326)	294,258
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	294,258
Unreserved:				
General fund	885,772	-	-	-
Special revenue funds	-	414,391	(9,326)	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 885,772	414,391	(9,326)	294,258

See notes to financial statements.

Capital Projects	Nonmajor Governmental Funds	Total
-	75,174	2,097,510
-	-	778,617
-	-	17,606
-	-	199,711
33,200	1,996	87,329
48,011	43,653	566,563
-	-	182,481
-	7,239	31,724
<u>81,211</u>	<u>128,062</u>	<u>3,961,541</u>
-	17,881	671,961
-	-	680,222
-	39,000	48,000
-	1,443	354,637
-	10,106	47,633
-	-	383,215
-	-	900,224
<u>2,406,198</u>	<u>-</u>	<u>2,406,198</u>
<u>2,406,198</u>	<u>68,430</u>	<u>5,492,090</u>
<u>(2,324,987)</u>	<u>59,632</u>	<u>(1,530,549)</u>
87,292	-	87,292
1,330,000	1,851	1,930,621
-	(112,055)	(1,480,621)
<u>1,417,292</u>	<u>(110,204)</u>	<u>537,292</u>
<u>(907,695)</u>	<u>(50,572)</u>	<u>(993,257)</u>
<u>2,296,977</u>	<u>408,081</u>	<u>4,325,143</u>
<u>1,389,282</u>	<u>357,509</u>	<u>3,331,886</u>
-	-	294,258
-	-	885,772
-	357,509	762,574
<u>1,389,282</u>	<u>-</u>	<u>1,389,282</u>
<u>1,389,282</u>	<u>357,509</u>	<u>3,331,886</u>

Exhibit C

City of Grimes

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			Total
	Water	Sewer	Nonmajor - Solid Waste	
Operating receipts:				
Charges for service	1,063,284	777,821	142,399	1,983,504
Miscellaneous	16,345	-	-	16,345
Total operating receipts	1,079,629	777,821	142,399	1,999,849
Operating disbursements:				
Business type activities	501,986	302,014	166,441	970,441
Excess (deficiency) of operating receipts over (under) operating disbursements	577,643	475,807	(24,042)	1,029,408
Non-operating receipts (disbursements):				
Interest on investments	43	-	-	43
Debt service	(424,251)	(408,008)	-	(832,259)
Total non-operating receipts (disbursements)	(424,208)	(408,008)	-	(832,216)
Excess (deficiency) of receipts over (under) disbursements	153,435	67,799	(24,042)	197,192
Operating transfers out	(200,000)	(250,000)	-	(450,000)
Net change in cash balances	(46,565)	(182,201)	(24,042)	(252,808)
Cash balances beginning of year	525,295	557,887	(4,835)	1,078,347
Cash balances end of year	\$ 478,730	375,686	(28,877)	825,539
Cash Basis Fund Balances				
Reserved for debt service	\$ 35,198	33,790	-	68,988
Unreserved	443,532	341,896	(28,877)	756,551
Total cash basis fund balances	\$ 478,730	375,686	(28,877)	825,539

See notes to financial statements.

City of Grimes

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Grimes is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grimes has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Polk County Assessor's Conference Board and the Polk County Joint E911 Service Board.

The City also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Des Moines Area Metropolitan Planning Organization and the Joint County/Municipal Disaster Services and Emergency Planning Administration.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Grimes maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,705 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation		Revenue Bonds		Total	
	Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2005	\$ 645,000	230,215	431,000	396,855	1,076,000	627,070
2006	650,000	215,400	448,000	380,044	1,098,000	595,444
2007	675,000	199,225	466,000	362,562	1,141,000	561,787
2008	700,000	180,630	484,000	344,371	1,184,000	525,001
2009	545,000	159,515	503,000	325,473	1,048,000	484,988
2010 - 2014	2,105,000	541,428	2,824,000	1,316,841	4,929,000	1,858,269
2015 - 2019	1,385,000	123,525	3,422,000	719,381	4,807,000	842,906
2020 - 2021	-	-	1,560,637	92,600	1,560,637	92,600
Total	\$ 6,705,000	1,649,938	10,138,637	3,938,127	16,843,637	5,588,065

Water and Sewer Revenue Bonds

The resolutions providing for the issuance of the water and sewer revenue bonds issued under a loan agreement between the City of Grimes, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. include the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the four years ended June 30, 2004, the City requested \$11,338,637 of the \$11,348,000 authorized. Wells Fargo Iowa, N.A., has the remaining \$9,363 held in trust which the City will request as the project progresses.

Lease-Purchase Agreements

The City has entered into lease-purchase agreements to lease a fire truck and a truck and snow plow. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreements in effect at June 30, 2004:

Year Ending June 30,	Fire Truck	Truck and Snow Plow	Total
2005	\$ 18,020	16,137	34,157
2006	18,020	16,137	34,157
2007	18,020	16,137	34,157
2008	18,020	-	18,020
2009	18,020	-	18,020
Total minimum lease payments	90,100	48,411	138,511
Less amount representing interest	(14,381)	(4,988)	(19,369)
Present value of net minimum lease payments	\$ 75,719	43,423	119,142

Payments under the agreements for the year ended June 30, 2004 totaled \$34,157.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$29,378, \$26,849 and \$24,811, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 42,000
Compensatory time	<u>10,000</u>
Total	<u>\$ 52,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Employee Benefits	\$ 112,055
Special Revenue: Fire Department FEMA Grant	General	1,851
Debt Service	General Special Revenue: Tax Increment Financing	26,020 460,695
Capital Projects	Special Revenue: Road Use Tax Tax Increment Financing Enterprise: Water Sewer	550,000 330,000 200,000 250,000
Total		<u>\$ 1,930,621</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2004 were \$88,212.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of

whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Economic Development Loan Agreement

In a prior year, the City loaned Collective Investment Management, LTD of West Des Moines, Iowa, \$50,000 for infrastructure improvements. Interest on the loan is 3% per year and is payable each year. Principal is due in full on January 27, 2005.

(9) Construction Commitments

The City has entered into construction contracts totaling approximately \$5,355,000. As of June 30, 2004, costs of approximately \$799,000 had been paid on the contracts. The remaining \$4,556,000 will be paid as work on these projects progresses.

(10) Subsequent Events

On July 13, 2004, the City approved issuance of an Education Facility Revenue Note not to exceed \$7,200,000 for the Des Moines Christian School Association under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the revenues derived from the Association, and the bond principal and interest do not constitute liabilities of the City.

On July 29, 2004, the City purchased a building to house City Hall offices for \$425,000. The building was purchased using available cash resources of the City.

In September 2004, the City entered into a contract totaling \$42,998 for a sports complex trail addition. In November 2004, the City entered into a contract totaling \$167,000 for the Kennybrook sewer extension project.

(11) Deficit Balances

The Special Revenue, Tax Increment Financing and Fire Department FEMA Grant Funds had deficit balances of \$9,326 and \$13,487, respectively, at June 30, 2004. The Enterprise, Solid Waste Fund had a deficit balance of \$28,877 at June 2004. The deficits will be eliminated through subsequent year receipts and a corrective transfer.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Park and Recreation, Library and Rollow Memorial Funds were previously reported as Expendable Trust Funds. They are now reported as Special Revenue Funds.

Required Supplementary Information

City of Grimes
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,097,510	-	2,097,510
Tax increment financing	778,617	-	778,617
Other city tax	17,606	-	17,606
Licenses and permits	199,711	-	199,711
Use of money and property	87,329	43	87,372
Intergovernmental	566,563	-	566,563
Charges for service	182,481	1,983,504	2,165,985
Miscellaneous	31,724	16,345	48,069
Total receipts	3,961,541	1,999,892	5,961,433
Disbursements:			
Public safety	671,961	-	671,961
Public works	680,222	-	680,222
Health and social services	48,000	-	48,000
Culture and recreation	354,637	-	354,637
Community and economic development	47,633	-	47,633
General government	383,215	-	383,215
Debt service	900,224	-	900,224
Capital projects	2,406,198	-	2,406,198
Business type activities	-	1,802,700	1,802,700
Total disbursements	5,492,090	1,802,700	7,294,790
Excess (deficiency) of receipts over (under) disbursements	(1,530,549)	197,192	(1,333,357)
Other financing sources (uses), net	537,292	(450,000)	87,292
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(993,257)	(252,808)	(1,246,065)
Balances beginning of year	4,325,143	1,078,347	5,403,490
Balances end of year	\$ 3,331,886	825,539	4,157,425

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
2,022,770	2,107,607	(10,097)
830,695	830,695	(52,078)
78,303	35,328	(17,722)
145,900	153,950	45,761
53,300	55,800	31,572
550,025	526,769	39,794
1,920,100	2,120,982	45,003
21,100	53,720	(5,651)
<u>5,622,193</u>	<u>5,884,851</u>	<u>76,582</u>
667,469	718,995	47,034
737,387	758,953	78,731
39,000	39,000	(9,000)
385,165	386,746	32,109
37,500	62,500	14,867
401,306	419,580	36,365
880,204	1,126,463	226,239
330,000	5,885,000	3,478,802
1,871,485	1,882,989	80,289
<u>5,349,516</u>	<u>11,280,226</u>	<u>3,985,436</u>
272,677	(5,395,375)	4,062,018
-	3,067,292	(2,980,000)
272,677	(2,328,083)	1,082,018
<u>3,114,116</u>	<u>5,403,490</u>	-
<u>3,386,793</u>	<u>3,075,407</u>	<u>1,082,018</u>

City of Grimes

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,930,710. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the health and social services function.

Other Supplementary Information

City of Grimes

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Employee Benefits	Emergency	Special Metro West Grant
Receipts:			
Property tax	\$ 34,196	40,978	-
Use of money and property	-	-	-
Intergovernmental	-	-	39,000
Miscellaneous	-	-	-
Total receipts	34,196	40,978	39,000
Disbursements:			
Operating:			
Public safety	-	-	-
Health and social services	-	-	39,000
Culture and recreation	-	-	-
Community and economic development	-	-	-
Total disbursements	-	-	39,000
Excess (deficiency) of receipts over (under) disbursements	34,196	40,978	-
Other financing sources (uses):			
Operating transfers in/(out)	(112,055)	-	-
Net change in cash balances	(77,859)	40,978	-
Cash balances beginning of year, as restated	100,957	76,194	-
Cash balances end of year	23,098	117,172	-
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 23,098	117,172	-

See accompanying independent auditor's report.

Revenue						
Economic Development Revolving Loans	Fire Department FEMA Grant	Park and Recreation	Library	Rolow Memorial		Total
-	-	-	-	-	-	75,174
1,996	-	-	-	-	-	1,996
-	-	-	4,653	-	-	43,653
-	-	-	7,239	-	-	7,239
1,996	-	-	11,892	-	-	128,062
-	17,881	-	-	-	-	17,881
-	-	-	-	-	-	39,000
-	-	-	1,443	-	-	1,443
10,106	-	-	-	-	-	10,106
10,106	17,881	-	1,443	-	-	68,430
(8,110)	(17,881)	-	10,449	-	-	59,632
-	1,851	-	-	-	-	(110,204)
(8,110)	(16,030)	-	10,449	-	-	(50,572)
199,949	2,543	13,145	14,979	314	-	408,081
191,839	(13,487)	13,145	25,428	314	-	357,509
191,839	(13,487)	13,145	25,428	314	-	357,509

City of Grimes
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Jan 1, 2002	4.00-4.70%	\$ 3,200,000
Corporate purpose	Mar 1, 2003	2.00-4.00	2,650,000
Refunding	May 29, 2003	1.30-3.20	1,955,000
Total			
Revenue bonds:			
Water	Dec 19, 2000	3.53-3.84%	\$ 5,976,000
Sewer	Dec 19, 2000	4.30	5,372,000
Total			
Lease-purchase agreements:			
Fire truck	Dec 15, 2000	6.09%	\$ 111,500
Truck and snow plow	Oct 17, 2002	5.64	72,178
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
2,700,000	-	165,000	2,535,000	117,208
2,650,000	-	115,000	2,535,000	106,453
1,955,000	-	320,000	1,635,000	41,133
<u>\$ 7,305,000</u>	<u>-</u>	<u>600,000</u>	<u>6,705,000</u>	<u>264,794</u>
5,454,708	87,292	225,000	5,317,000	196,478
5,011,637	-	190,000	4,821,637	215,500
<u>\$10,466,345</u>	<u>87,292</u>	<u>415,000</u>	<u>10,138,637</u>	<u>411,978</u>
88,358	-	12,639	75,719	5,381
56,380	-	12,957	43,423	3,180
<u>\$ 144,738</u>	<u>-</u>	<u>25,596</u>	<u>119,142</u>	<u>8,561</u>

City of Grimes
Bond Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds							Total
	Corporate Purpose		Corporate Purpose		Refunding			
	Issued Jan 1, 2002		Issued Mar 1, 2003		Issued May 29, 2003			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2005	4.00%	\$ 170,000	2.00%	\$ 145,000	1.55%	\$ 330,000	645,000	
2006	4.00	175,000	2.00	150,000	1.90	325,000	650,000	
2007	4.00	185,000	2.25	150,000	2.30	340,000	675,000	
2008	4.10	190,000	2.75	160,000	2.55	350,000	700,000	
2009	4.25	195,000	3.00	160,000	2.90	190,000	545,000	
2010	4.30	205,000	3.25	165,000	3.20	100,000	470,000	
2011	4.40	210,000	3.30	175,000	-	-	385,000	
2012	4.40	220,000	3.45	180,000	-	-	400,000	
2013	4.50	230,000	3.50	185,000	-	-	415,000	
2014	4.60	240,000	3.60	195,000	-	-	435,000	
2015	4.70	250,000	3.70	200,000	-	-	450,000	
2016	4.70	265,000	3.80	215,000	-	-	480,000	
2017	-	-	3.90	225,000	-	-	225,000	
2018	-	-	4.00	230,000	-	-	230,000	
2019	-	-	-	-	-	-	-	
2020	-	-	-	-	-	-	-	
2021	-	-	-	-	-	-	-	
Total		<u>\$2,535,000</u>		<u>\$2,535,000</u>		<u>\$ 1,635,000</u>	<u>6,705,000</u>	

See accompanying independent auditor's report.

Revenue Bonds							
Water		Water				Sewer	
Issued Dec 19, 2000		Issued Dec 19, 2000				Issued Dec 19, 2000	
Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Total
3.53%	\$ 210,000	3.84%	\$ 23,000	233,000	4.30%	\$ 198,000	\$ 431,000
3.53	217,000	3.84	24,000	241,000	4.30	207,000	448,000
3.53	225,000	3.84	25,000	250,000	4.30	216,000	466,000
3.53	233,000	3.84	26,000	259,000	4.30	225,000	484,000
3.53	241,000	3.84	27,000	268,000	4.30	235,000	503,000
3.53	249,000	3.84	28,000	277,000	4.30	245,000	522,000
3.53	258,000	3.84	29,000	287,000	4.30	256,000	543,000
3.53	267,000	3.84	30,000	297,000	4.30	266,000	563,000
3.53	277,000	3.84	32,000	309,000	4.30	278,000	587,000
3.53	286,000	3.84	33,000	319,000	4.30	290,000	609,000
3.53	296,000	3.84	34,000	330,000	4.30	302,000	632,000
3.53	307,000	3.84	35,000	342,000	4.30	315,000	657,000
3.53	318,000	3.84	37,000	355,000	4.30	329,000	684,000
3.53	329,000	3.84	38,000	367,000	4.30	343,000	710,000
3.53	341,000	3.84	40,000	381,000	4.30	358,000	739,000
3.53	353,000	3.84	41,000	394,000	4.30	373,000	767,000
3.53	365,000	3.84	43,000	408,000	4.30	385,637	793,637
	<u>\$4,772,000</u>		<u>\$ 545,000</u>	<u>5,317,000</u>		<u>\$4,821,637</u>	<u>10,138,637</u>

Schedule 4

City of Grimes

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 2,097,510	1,950,430
Tax increment financing	778,617	339,941
Other city tax	17,606	73,911
Licenses and permits	199,711	181,354
Use of money and property	87,329	51,408
Intergovernmental	566,563	572,297
Charges for service	182,481	118,126
Miscellaneous	31,724	278,697
	<u>3,961,541</u>	<u>3,566,164</u>
Total	\$ 3,961,541	3,566,164
Disbursements:		
Operating:		
Public safety	\$ 671,961	566,187
Public works	680,222	873,301
Health and social services	48,000	42,250
Culture and recreation	354,637	388,090
Community and economic development	47,633	37,318
General government	383,215	338,916
Debt service	900,224	686,192
Capital projects	2,406,198	2,601,271
	<u>5,492,090</u>	<u>5,533,525</u>
Total	\$ 5,492,090	5,533,525

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Grimes, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 6, 2004. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Grimes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (2) and (10).

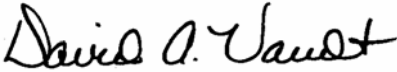
Internal Control Over Financial Reporting


In planning and performing our audit, we considered the City of Grimes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Grimes' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. The prior year reportable condition has been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grimes and other parties to whom the City of Grimes may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Grimes during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2004

City of Grimes
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Bank Signature Cards – The City maintains signature cards on each bank account stating who is approved to access the account. The signature cards have not been updated to remove the former mayor and mayor pro tem or add the individuals who currently fill those positions.

Recommendation – The City should update the bank signature cards to reflect current authorized personnel.

Response – The City is in the process of updating all signature cards.

Conclusion – Response accepted.

- (B) Timecards – City employees who are paid on an hourly basis complete bi-weekly timecards. However, the timecards are not reviewed and approved by a supervisor.

Recommendation – The City should develop procedures to ensure timecards for hourly employees are reviewed and approved by a supervisor.

Response – All time cards will be reviewed by the appropriate supervisor personnel and initialed upon approval.

Conclusion – Response accepted.

City of Grimes
Schedule of Findings
Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Disbursements in the capital projects function exceeded the original amount budgeted prior to amendment of the budget.

Recommendation – The budget should have been amended in sufficient amount in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend the budget before disbursements exceed the original amount budgeted.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No transactions between the City and City officials and employees were noted.
- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, total disbursements for each fund and a summary of receipts were not published as required by Chapter 372.13(6) of the Code of Iowa.

In addition, the minutes record for one closed session did not identify the correct exemption under Chapter 21.5 of the Code of Iowa for the purpose stated for the closed session.

City of Grimes

Schedule of Findings

Year ended June 30, 2004

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa by publishing the total disbursements by fund and a summary of receipts. For closed sessions, the City should correctly identify the exemption under Chapter 21.5 of the Code of Iowa which pertains to the closed session.

Response – The City will comply with Chapter 372.13(6) of the Code of Iowa by publishing the total disbursements by fund and a summary of receipts. The City will correctly identify the exemption under Chapter 21.5 which pertains to the closed session.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Water and Sewer Revenue Bonds – The City has complied with the provisions of the water and sewer revenue bond resolutions.
- (10) Financial Condition – The Special Revenue, Tax Increment Financing and Fire Department FEMA Grant Funds had deficit balances of \$9,326 and \$13,487, respectively, at June 30, 2004. The Enterprise, Solid Waste Fund had a deficit balance of \$28,877 at June 30, 2004.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response – The City found the posting error which will alleviate the deficit balance in the Fire Department FEMA Grant Fund. The City will have revenues available in the 2005 fiscal year to alleviate the other deficit balances.

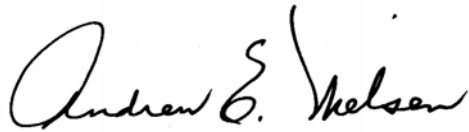
Conclusion – Response acknowledged. A corrective transfer of \$16,659 should be made from the General Fund to the Special Revenue, Fire Department FEMA Grant Fund.

City of Grimes

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Jennifer Campbell, CPA, Senior Auditor
Amanda S. Guthrie, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State